

**Illinois Department of Revenue  
Regulations**

<b>Title 86 Part 100 Section 100.2150 Training Expense Credit (IITA 201(j))</b>
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**TITLE 86: REVENUE**

**PART 100  
INCOME TAX**

**Section 100.2150 Training Expense Credit (IITA 201(j))**

- a) Beginning with tax years ending on or after December 31, 1986 and prior to December 31, 2003, a *taxpayer shall be allowed a credit against the tax imposed by IITA Sections 201(a) and (b) for all amounts paid or accrued, on behalf of all persons employed by the taxpayer in Illinois, or Illinois residents employed outside of Illinois by a taxpayer, for educational or vocational training in semi-technical or technical fields or semi-skilled or skilled fields, which were deducted from gross income in the computation of taxable income* (IITA Section 201(j)).
- b) *The credit against the tax imposed by IITA Sections 201(a) and (b) shall be 1.6% of eligible training expenses* (IITA Section 201(j)).
- c) All amounts paid for educational or vocational training in semi-technical or technical fields or semi-skilled or skilled fields are eligible for the credit. No particular fields of employment are presumptively eligible or ineligible for the credit.
  - 1) The Training Expense Credit was originally enacted into law as a training expense deduction by P.A. 83-650, the Prairie State 2000 Authority Act, and was later converted into the current Training Expense Credit by P.A. 84-1405. The Illinois General Assembly found that there existed *a large surplus of workers throughout the State who are ready, willing and able to work but who lack the appropriate skills to perform the specialized tasks for modern business and industry....The General Assembly found that a substantial impediment to attracting new businesses and encouraging the modernization of existing businesses has been the shortage of workers who can perform the specialized tasks required by the new technologies of modern business.* [20 ILCS 4020/2]
  - 2) The credit is for the amounts paid or accrued for educational or vocational training in semi-technical or technical or semi-skilled or skilled fields.
    - A) The terms "semi-technical or technical fields or semi-skilled or skilled fields" do not refer to any particular occupation. This statutory language authorizes the credit for the costs of training of an employee to improve that employee's job skills within the scope of his or her employment.
    - B) The credit will be authorized for the costs of job-linked training that offers special skills for career advancement or that is preparatory for, and leads to, a job with definite career potential.

- C) The credit will be authorized for amounts expended for training necessary to implement Total Quality Management or improvement systems within the workplace.
  - D) The credit will be authorized for training related to machinery or equipment.
  - E) The credit will be authorized for job-linked basic skills, which may include English as a second language and remedial training, necessary for employees to function effectively and safely in the workplace, or as a prerequisite for other training.  
 EXAMPLES: Training of a machine operator in skills necessary to operate a computer-assisted manufacturing machine would qualify for the credit. Training of the employees of a retailer in the operation of a cash register system that is designed to aid the retailer by resulting in faster sales and greater inventory control because of centralized linkage of the system to the retailer's headquarters would, assuming all other requirements are met, qualify for the credit. A course in how to supervise employees required of supervisors because of the installation of a computer system at the business with terminals in the homes of that supervisor's subordinates that allows those subordinates to work from their homes would qualify for the credit.
  - F) Training does not have to occur in a classroom. Training may be given by an employer to his or her employees, an employer may contract with a third party to provide the training, or an employer may reimburse an employee for the costs of training purchased by an employee. Eligible training may include self-study courses. Self-study courses will qualify if the employer demonstrates that the self-study coursework is training in semi-technical or technical or semi-skilled or skilled fields. Self-study training must be contrasted with the type "down time" reading which, as stated in subsection (d)(2)(B), below, does not qualify for the credit.
  - G) Training does not have to occur on the premises of the employer. Training does not have to occur in the State of Illinois. However, in order to claim costs of employee travel and lodging, an employer must document that the costs of travel were related to the training and were deducted in determining the employer's federal taxable income.
  - H) A training expense that would otherwise not qualify for the credit will not be deemed to qualify for the credit because of a designation of an employee as a probationary employee, a trainee, or a similar designation of that nature.
- d) Only amounts expended for eligible training will qualify as eligible training expenses. Such costs may or may not constitute "direct expenses" as that term is used in normal accounting parlance. Capitalized costs will not qualify for the credit. However, as noted below, depreciation expenses associated with capital expenditures may qualify for the credit. The term "compensation" used in this Section is defined in IITA Section

1501(a)(3).

- 1) The following costs qualify as eligible training expenses:
  - A) Compensation of employees for time spent in training others in in-house training will qualify as eligible training expenses, but the compensation must be prorated based on the amount of time actually spent in conducting the training.
  - B) Compensation of an employee for time spent in preparing for in-house training as or for an instructor will qualify because such compensation is an expense of the training.
  - C) Compensation of an employee for time spent in training will qualify for the credit.
  - D) The cost of materials (i.e., slides, hand-outs, etc.) for in-house training will qualify for the credit because such costs are expenses of the training.
  - E) Pro-rata rent of a training facility is an expense eligible for the credit. Similarly, depreciation expenses for a training facility owned by a taxpayer or for equipment used for training are eligible expenses.
  - F) Costs of registration (including allocable wages of employees performing the registration) with state, federal or industry authorities may be eligible expenses, if such costs are related to eligible training.
  - G) Tuition reimbursement is an eligible expense provided that the tuition amounts were deducted in determining the employer's federal taxable income.
  - H) Costs of travel and lodging for eligible training provided that the costs were deducted in determining the employer's federal taxable income.
- 2) The following costs do not qualify as eligible training expenses:
  - A) The cost of the training facility and equipment is not an eligible expense. Capital costs are not eligible for the credit. However, as noted above, depreciation expense is eligible.
  - B) Compensation of an employee for "down time" spent informally training (i.e., a mechanic with no machinery on which to work reading about new equipment, or a mechanic reading about specifications of equipment never before encountered) is not an eligible expense.
  - C) Compensation of an employee for time spent supervising another employee is not an eligible expense. For instance, a supervisor spending an hour a day reviewing and discussing a new employee's progress and planning the new employee's future work schedule would not be an eligible expense.

- D) Cost of a meal (breakfast or lunch) provided in the course of a brief training session is not an eligible expense. Similarly, the cost of meals provided to an employee during an all-day training session is not an eligible expense.
- 3) Employers must maintain records sufficient to document that the training is eligible training. Employers must maintain records that document the amounts expended for eligible training expenses. An employer may maintain documentation as required for the Industrial Training Program of the Illinois Department of Commerce and Community Affairs (see 56 Ill. Adm. Code 2650.120), or as maintained by employers in compliance with the requirements of the Illinois Secretary of State's Workplace Literacy Program (see 23 Ill. Adm. Code 3040.220 and 3040.240) for purposes of documentation for the Training Expense Credit. Employers may claim the credit based upon average or standard costs of training each employee. The documentation of amounts expended for eligible training expenses, or documentation maintained to claim the credit based upon average or standard costs, must be sufficient to demonstrate that the training for which the credit is claimed is on behalf of persons employed by the taxpayer in Illinois, or Illinois residents employed outside of Illinois by the taxpayer, the training qualifies for the credit under the standards of subsection (b) of this Section above, and the expenditures are eligible training expenses under the standards of subsection (d)(1) above. In the event an employer claims the credit based upon average or standard costs, this documentation must include detailed information concerning the methodology utilized in determining the average or standard costs.
- e) For purposes of the training expense credit and this rule, the term "persons employed by the taxpayer in Illinois" shall include both employees whose compensation is subject to withholding under IITA Section 701 (including employees who are exempt from withholding pursuant to IITA Section 701(d)). A person is employed in Illinois by the taxpayer if that person has "compensation paid in this State" as that term is defined in IITA Section 304(a)(2)(B). Sole proprietors, partners of partnerships, shareholders of corporations, beneficiaries of trusts or estates, or other individuals who own an interest in the employer are not employees for purposes of this credit, unless in the case of shareholders or beneficiaries, they are able to demonstrate that, separate and apart from their ownership status, they are also employees of the concern.
- f) *For partners and shareholders of subchapter S corporations, there shall be allowed a credit under IITA Section 201(j) to be determined in accordance with the determination of income and distributive share of income under Sections 702 and 704 and subchapter S of the Internal Revenue Code (IITA Section 201(j)).*
- g) *Any credit allowed under this subsection which is unused in the year the credit is earned may be carried forward to each of the 5 taxable years following the year for which the credit is computed until it is used. This credit shall be applied first to the earliest year for which there is a liability. If there is a credit under this subsection from more than one tax year that is available to offset a liability, the earliest credit arising under this subsection shall be applied first. No carryforward credit may be claimed in any tax year ending on or after December 31, 2003. (IITA Section 201(j))*

(Source: Amended at 29 Ill. Reg. 20516, effective December 2, 2005)